



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada

AGRICULTURE AND AGRI-FOOD CANADA

**Financial Statements (Unaudited)
For the year ended March 31, 2011**

Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2011, and all information contained in these statements rests with the management of the Department of Agriculture and Agri-Food Canada. These financial statements have been prepared by management in accordance with Treasury Board accounting policies, which are based on Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the Department's financial transactions. Financial information submitted in the preparation of the *Public Accounts of Canada*, and included in the Department's *Departmental Performance Report*, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

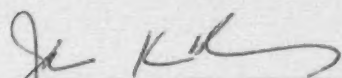
Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the Department; and through conducting an annual assessment of the effectiveness of the system of internal control over financial reporting.

An assessment for the year ended March 31, 2011 was completed in accordance with the *Policy on Internal Control* and the results and action plans are summarized in the annex.

The system of internal control over financial reporting is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

The effectiveness and adequacy of the Department's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the Department's operations, and by the Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

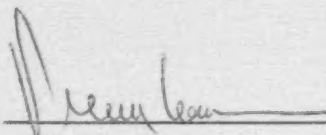
The financial statements of the Department have not been audited.



John Knubley, Deputy Minister

Ottawa, Canada

August 19, 2011



Pierre Corriveau, Chief Financial Officer

AGRICULTURE AND AGRI-FOOD CANADA

Statement of Financial Position (Unaudited)

As at March 31

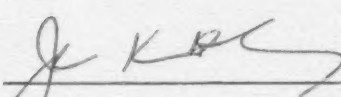
(in thousands of dollars)

	2011	2010
		Restated (Note 16)
ASSETS		
Financial assets		
Due from Consolidated Revenue Fund	\$ 1,703,582	\$ 2,250,906
Accounts receivable and advances (Note 4)	70,488	66,583
Loans receivable (Note 5)	316,577	285,110
Total financial assets	2,090,647	2,602,599
Non-financial assets		
Prepaid expenses and inventory	4,983	4,389
Tangible capital assets (Note 6)	398,048	380,828
Total non-financial assets	403,031	385,217
	<u>\$ 2,493,678</u>	<u>\$ 2,987,816</u>
LIABILITIES AND EQUITY OF CANADA		
Liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 1,571,919	\$ 1,691,088
Vacation pay and compensatory leave	37,740	33,341
Deferred revenue (Note 8)	11,601	12,201
Employee future benefits (Note 9)	109,739	104,857
Other liabilities (Note 10)	294,801	601,780
	2,025,800	2,443,267
Equity of Canada	467,878	544,549
	<u>\$ 2,493,678</u>	<u>\$ 2,987,816</u>

Contingencies (Note 12)

Contractual Obligations (Note 13)

The accompanying notes form an integral part of these financial statements.


John Knubley, Deputy Minister

Ottawa, Canada

August 19, 2011


Pierre Corriveau, Chief Financial Officer

AGRICULTURE AND AGRI-FOOD CANADA

Statement of Operations (Unaudited)

For the Year Ended March 31

(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
EXPENSES		
Business Risk Management	\$ 1,590,813	\$ 1,278,642
Internal Services	436,188	404,611
Science, Innovation and Adoption	329,010	273,041
Trade and Market Development	94,065	99,359
On-Farm Action	105,205	97,391
Food Safety and Biosecurity Risk Management Systems	91,873	90,298
Environmental Knowledge, Technology, Information and Measurement	87,201	86,595
Agri-Business Development	103,995	45,967
Rural and Co-operatives Development	20,312	21,676
Canadian Pari-Mutuel Agency	12,639	12,453
Regulatory Efficiency Facilitation	11,935	11,020
Farm Products Council of Canada	<u>2,851</u>	<u>2,974</u>
	2,886,087	2,424,027
REVENUES		
Business Risk Management	40,483	84,396
Internal Services	9,957	7,787
Science, Innovation and Adoption	24,601	18,073
Trade and Market Development	90	33
On-Farm Action	18,536	18,161
Food Safety and Biosecurity Risk Management Systems	263	293
Environmental Knowledge, Technology, Information and Measurement	82	63
Rural and Co-operatives Development	5	-
Canadian Pari-Mutuel Agency	11,600	12,443
Regulatory Efficiency Facilitation	<u>-</u>	<u>6</u>
	105,617	141,255
NET COST OF OPERATIONS	<u>\$ 2,780,470</u>	<u>\$ 2,282,772</u>

Segmented information (Note 15)

The accompanying notes form an integral part of these financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Statement of Equity of Canada (Unaudited)

For the Year Ended March 31

(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
		Restated (Note 16)
EQUITY OF CANADA, BEGINNING OF YEAR	\$ 544,549	\$ 403,486
Net cost of operations	(2,780,470)	(2,282,772)
Net cash provided by Government	3,169,230	2,284,526
Change in due from the Consolidated Revenue Fund	(547,324)	74,074
Services provided without charge by other government departments (Note 14)	71,335	65,235
Transfer of tangible capital assets from other government departments (Note 6)	10,558	-
EQUITY OF CANADA, END OF YEAR	<u>\$ 467,878</u>	<u>\$ 544,549</u>
Restricted equity of Canada (Note 11)	89,899	52,774
Non-restricted equity of Canada	377,979	491,775
EQUITY OF CANADA	<u>\$ 467,878</u>	<u>\$ 544,549</u>

The accompanying notes form an integral part of these financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Statement of Cash Flows (Unaudited)

For the Year Ended March 31

(in thousands of dollars)

	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES		
Net cost of operations	\$ 2,780,470	\$ 2,282,772
Non-cash items:		
Amortization of tangible capital assets	(44,513)	(40,013)
Gain (Loss) on disposal of tangible capital assets	108	(5)
Non-cash changes of tangible capital assets	340	17,125
Services provided without charge by other government departments	(71,335)	(65,235)
Variations in Statement of Financial Position		
Increase (decrease) in accounts receivable and advances	3,905	(158,619)
Increase (decrease) in loans receivable	31,467	251,366
Increase (decrease) in prepaid expenses and inventory	594	(15,688)
Decrease (increase) in accounts payable and accrued liabilities	119,169	118,926
Decrease (increase) in vacation pay and compensatory leave	(4,399)	(2,084)
Decrease (increase) in deferred revenue	600	(401)
Decrease (increase) in employee future benefits	(4,882)	4,183
Decrease (increase) in other liabilities	<u>306,979</u>	<u>(183,282)</u>
CASH USED IN OPERATING ACTIVITIES	3,118,503	2,209,045
CAPITAL INVESTING ACTIVITIES		
Acquisition of tangible capital assets	51,045	75,656
Proceeds from disposal of tangible capital assets	<u>(318)</u>	<u>(175)</u>
CASH USED IN CAPITAL INVESTING ACTIVITIES	50,727	75,481
NET CASH PROVIDED BY GOVERNMENT OF CANADA	<u>\$ 3,169,230</u>	<u>\$ 2,284,526</u>

The accompanying notes form an integral part of these financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 1 - Authority and objectives

The Department of Agriculture and Agri-Food (AAFC) was originally established in 1868. Under the *Department of Agriculture and Agri-Food Act*, the Minister is responsible for agriculture, products derived from agriculture and research related to agriculture and products derived from agriculture including the operation of experimental farm stations, unless they have been assigned by law to another department, board or agency.

The Department provides information, research and technology, and policies and programs to achieve security of the food system, health of the environment and innovation for growth.

Business Risk Management

AAFC, in partnership with the provinces and territories, has a comprehensive suite of BRM programs to better equip producers with the tools and capacity to manage business risks. These programs consist of coverage for small income declines through AgriInvest, margin-based support for larger income losses through AgriStability, rapid assistance to producers through the disaster relief framework AgriRecovery, and protection against production losses due to uncontrollable natural hazards through AgriInsurance.

In addition, the department provides assistance to producers through several financial guarantee programs. For instance, the Advance Payments Program facilitates the marketing of producers' crops when market conditions and prices may be more favourable.

Internal Services

Internal Services are groups of related activities and resources that are administered to support all Strategic Outcomes and the needs of programs and other corporate obligations of the department. Only those activities and resources that apply across the department, and not those provided specifically to a program, are included. Internal Services consists of the following group of activities:

- Management and Oversight (includes Strategic Policy and Government Relations; Program/Service Management; Planning, Performance and Reporting; and Internal Audit and Evaluation); Communications Services; and Legal Services;
- Resource Management Services including: Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; and Travel and Other Administrative Services; and
- Asset Management Services including: Real Property Services; Materiel Services; and Acquisition Services.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Science, Innovation and Adoption

AAFC contributes to the competitiveness of the agriculture, agri-food and agri-based products sector by supporting innovation designed to improve profitability in new and existing products, services, processes and markets.

Coordinated and informed planning and decision-making is supported with strategic foresight, research, and information sharing with industry, government and academia. Collaborative action is promoted to accelerate the flow of science and technology along the innovation continuum in support of industry defined strategies for future success. Farmers, agri-entrepreneurs and agri-based small and medium sized enterprises are supported in their efforts to adopt new technologies and commercialize new products and services. Pathfinding and transformational research, help to define future opportunities and prepare the sector for emerging opportunities and challenges.

Trade and Market Development

AAFC acts as Canada's agricultural trade advocate, working to break down trade barriers at home and abroad and expand opportunities for the agriculture, agri-food and agri-based products sector.

The department assists the sector in identifying new domestic and global opportunities, markets and ways to enhance productivity, competitiveness and prosperity. AAFC also works to distinguish Canadian products under *Canada Brand International* and the *Domestic Branding Strategy* to expand and deepen the sector's strengths in the marketplace.

On-Farm Action

AAFC supports farmers through direct on-farm programming that identifies environmental risks and opportunities and promotes the continuous growth of the stewardship ethic within the agriculture and agri-food sector.

The department supports farmers through agri-environmental risk assessment and planning; providing expertise, information and incentives to increase the adoption of sustainable agriculture practices at the farm level; investigating and developing new approaches that encourage and support the adoption of sustainable agriculture practices; and increasing the recognition of the value of sustainable agriculture practices.

This Program Activity supports environmental stewardship and helps reduce the sector's overall impact on the environment. It contributes to a cleaner environment and healthier living conditions for Canadian people, and a more profitable agriculture sector.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Food Safety and Biosecurity Risk Management Systems

AAFC supports producers and organizations, and collaborates with provinces, in the development and implementation of food safety, biosecurity and traceability risk management systems to prevent and control risks to the animal and plant resource base thus strengthening the sector against widespread diseases and losses in domestic and foreign markets.

The risk management systems are national, government-recognized on-farm and/or post-farm Hazard Analysis of Critical Control Points (HACCP) or HACCP-based food safety systems, National Biosecurity Systems and a National Agriculture and Food Traceability System. These systems also support management activities to limit the spread of animal and plant diseases, thereby reducing economic, environmental and social impacts of a potential crisis. The National Animal and Plant Biosecurity Strategy provides overall policy direction ensuring efforts are targeted at the highest possible biosecurity risks.

Eligible recipients include national or regional non-profit organizations, producers and industry stakeholders.

Environmental Knowledge, Technology, Information and Measurement

AAFC is focused on supporting the sector through initiatives that enable it to use a more systematic management approach to making decisions with respect to environmental risks and help identify suitable corrective actions. The department is conducting basic and applied research to improve scientific understanding of agriculture's interactions with the environment on the key environmental challenges facing Canada and its regions; developing sustainable agricultural practices and validating environmental and economic performance at the farm level; and developing, enhancing and using agri-environmental indicators, greenhouse gas accounting systems and economic indicators to assess the sector's environmental and economic sustainability. This program provides the platform for innovation and discovery of technologies and strategies which are used as the basis for application by the sector to improve its agri-environmental performance.

Agri-Business Development

This Program Activity builds awareness of the benefits and encourages the use of sound business management practices to enable businesses to be profitable and invest where needed to manage the natural resource base sustainably and to market and produce safe food and other products.

The Agri-Business Development Program Activity provides funding for activities related to business management practices and skills that: strengthen the capacity of businesses in the sector to assess the financial implications of business improvements, including the impact of environmental plans, food safety systems and innovation projects on their business profitability; manage transformation, respond to change and adopt innovation in business operations; help agri-business owners understand their financial situations, implement effective action and business management plans/practices and provide for enhanced participation by young or new entrants, First Nations clients, and clients in specific sub-sectors in transition.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Rural and Co-operatives Development

The Rural and Co-operatives Development program leads an integrated, government-wide approach, called the Canada's Rural Partnership, through which the government aims to coordinate its economic, social, environmental and cultural policies towards the goal of economic and social development and renewal of rural Canada. It develops partnerships with federal departments and provincial and rural stakeholders in areas such as knowledge building, policy development and the implementation of the government's rural development strategies. It also offers tools to enable rural communities to use their innovative capacity to capture the value of local amenities, and to achieve greater local or regional economic competitiveness.

The program also promotes economic growth and social development of Canadian society through the development of co-operatives. It facilitates the development of co-operatives as an effective tool to help Canadians and communities address their needs and capture economic opportunities. It provides advice across government on policies and programs affecting co-operatives and builds partnerships within the federal government and with the sector, the provinces and other key stakeholders in the implementation of initiatives, such as capacity and knowledge building, to support the development of co-operatives.

Canadian Pari-Mutuel Agency

Section 204 of the *Criminal Code of Canada* designates the Minister of Agriculture and Agri-Food as the individual responsible for the policy and regulatory functions pertaining to pari-mutuel wagering on horse races.

The Canadian Pari-Mutuel Agency (CPMA) is a special operating agency within AAFC that regulates and supervises pari-mutuel betting on horse racing at racetracks across Canada, with the objective of ensuring that pari-mutuel betting is conducted in a way that is fair to the betting public. Costs associated with the activities of the CPMA are recovered through a levy on every dollar bet on horse races in Canada. The levy is currently set at eight-tenths of a cent of every dollar bet. CPMA's strategic plans are focused on regulating and supervising pari-mutuel wagering on horse races in the most modern, effective and transparent manner.

Regulatory Efficiency Facilitation

AAFC is undertaking initiatives to ensure that the regulatory environment promotes sector innovation, investment and competitiveness, while protecting the health of Canadians and the safety and security of our food supply. The department recognizes that with the rapid pace of technological advancement and emerging gaps between international and domestic regulatory policies, Canada's regulatory environment will need to increase capacities and accelerate modernization to be responsive. Initiatives under this Program Activity involve working with stakeholders along the value chain to enhance their ability to fulfill regulatory requirements, and collaborating with federal partners and industry to find ways of streamlining the regulatory burden through targeted actions on sector priorities, while at the same time maintaining the integrity of Canada's strong regulatory system. Improving the timeliness and transparency of science-based regulatory decision-making will also contribute to improved public and stakeholder confidence.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Farm Products Council of Canada

Established through the *Farm Products Agencies Act*, the Farm Products Council of Canada (FPCC), formerly known as the National Farm Products Council, is a quasi-judicial agency reporting to Parliament through the Minister of Agriculture and Agri-Food. The Act provides for the creation of national marketing and promotion research agencies. The FPCC supervises these agencies and works with them to ensure that the supply management system for poultry and eggs and the check-off system for beef cattle work in the balanced interest of all stakeholders, from producers to consumers. The FPCC is also an active proponent of portfolio management by providing advice to the Minister and maintaining relationships with provincial governments.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 2 - Summary of significant accounting policies

These financial statements have been prepared in accordance with the Treasury Board accounting policies stated below, which are based on Canadian generally accepted accounting principles for the public sector. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles.

Significant accounting policies are as follows:

- (a) **Parliamentary authorities** – The Department is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the Department do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting.
- (b) **Consolidation** – These consolidated financial statements include the accounts of the sub-entities that are under the control of the Department. The accounts of these subentities have been consolidated with those of the Department and all inter-organizational balances and transactions have been eliminated. The accounting entity comprises of the Department of Agriculture and Agri-Food, the Farm Products Council of Canada, and the Canadian Pari-Mutuel Agency. The financial statements do not include the accounts of the Canadian Food Inspection Agency, the Canadian Wheat Board, the Canadian Grain Commission, the Canadian Dairy Commission and Farm Credit Canada because they are not under the control of Agriculture and Agri-Food Canada and therefore, are not consolidated.
- (c) **Net Cash Provided by Government** – The Department operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the Department is deposited to the CRF and all cash disbursements made by the Department are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the Government.
- (d) **Due from the Consolidated Revenue Fund** – The amounts are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the Department is entitled to draw from the CRF without further appropriations to discharge its liabilities.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

(e) Revenues:

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year.
- Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. These revenues are recognized in the period in which the related expenses are incurred.
- Funds that have been received are recorded as deferred revenue, provided the Department has an obligation to other parties for the provision of goods, services or the use of assets in the future.
- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.
- Refunds of prior year expenses are recorded in the period when they are received.
- Interest revenue is recognized when earned. Interest revenue ceases to be accrued when either principal or interest is not reasonably collectable.

(f) Expenses – Expenses are recorded on the accrual basis:

- Grants are recognized in the year in which the conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement, provided that the transfer is authorized and a reasonable estimate can be made.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

- Services provided without charge by other government departments for the employer's contribution to the health and dental insurance plans, accommodation, legal services, and workers' compensation are recorded as operating expenses at their estimated cost.
- (g) Employee future benefits:
- (i) Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government. The Department's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require the Department to make contributions for any actuarial deficiencies of the Plan.
 - (ii) Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.
- (h) Accounts and loans receivables – The amounts are stated at the lower of cost and net recoverable value; a valuation allowance is recorded for receivables where recovery is considered uncertain.
- (i) Repayable contributions – Repayable contributions are contributions where the recipient is expected to repay the amount advanced. Depending on their nature, they are classified as either unconditionally repayable or conditionally repayable and are accounted for accordingly.
- (i) Unconditionally repayable contributions are contributions that must be repaid without qualification. Normally, these contributions are provided with a low or no interest clause. Due to their concessionary nature, they are recorded on the Statement of Financial Position as loans at their estimated present value. A portion of the unamortized discount is recorded as revenue each year to reflect the change in the present value of the contributions outstanding. An estimated allowance for uncollectibility is recorded where appropriate.
 - (ii) Conditionally repayable contributions are contributions that, all or part of which become repayable, if conditions specified in the contribution agreement come into effect. Accordingly, they are not recorded on the Statement of Financial Position until such time as the conditions specified in the agreement come into effect at which time, they are recorded as a receivable and a reduction in transfer payment expenses. An estimated allowance for uncollectibility is recorded where appropriate.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

- (j) Contingencies – Contingencies are potential recoveries or liabilities which may become actual recoveries or liabilities when one or more future events occur or fail to occur.
 - (i) Contingent liabilities – To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.
 - (ii) Contingent recoveries – Contingent gains are not accrued in financial statements. However, a contingent gain which is considered likely to be realized is disclosed in the notes to the financial statements.
- (k) Loan and Price Guarantees – An allowance on loans or price guarantees is recorded in the accounts when it is likely that a payment will be made to honor a guarantee and where the amount of the anticipated loss can be reasonably estimated. The amount of the allowance for losses is determined based on historical loss experience and economic conditions adversely affecting the capacity of borrowers to reimburse the loan. The allowance is reviewed on a regular basis and the variations are recorded in the statement of operations.
- (l) Environmental liabilities – Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when the Department becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of the Department's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.
- (m) Tangible capital assets – All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. The Department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value and museum collections.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

ASSET CLASS	AMORTIZATION PERIOD
Buildings	20 to 30 years
Works and infrastructure	15 to 40 years
Machinery and equipment	7 to 20 years
Vehicles	7 to 25 years
Computer Hardware and Software	3 to 5 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

- (n) Measurement uncertainty – The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, allowance for loan guarantees, the useful life of tangible capital assets, the liability for employee severance benefits, environmental liabilities. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 3 - Parliamentary Authorities

The Department receives most of its funding through annual Parliamentary authorities. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, the Department has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

(a) Reconciliation of net cost of operations to current year authorities used

	<u>2011</u>	<u>2010</u>
Net cost of operations	\$ 2,780,470	\$ 2,282,772
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(44,513)	(40,013)
Gain (Loss) on disposal of tangible capital assets	108	(5)
Non cash changes of tangible capital assets	340	17,125
Services provided without charge by other government departments	(71,335)	(65,235)
Increase (decrease) in prepaid and inventory	594	(15,718)
Increase (decrease) in restricted equity	37,125	68,660
Decrease (increase) in vacation pay and compensatory leave	(4,399)	(2,084)
Decrease (increase) in accrued liabilities	(113,478)	3,233
Decrease (increase) in employee future benefits	(4,882)	4,183
Decrease (increase) in allowances for bad debt expenses	(14,868)	(12,028)
Refund of prior years' expenditures	(5,540)	14,183
Revenue not available for spending	18,332	16,017
Respendable revenue	12,931	12,402
Repayable contributions	-	246,409
Other	(2,291)	(235)
	<u>(191,876)</u>	<u>246,894</u>
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets	51,045	75,656
Proceeds from disposal of tangible capital assets	(318)	(175)
Increase (decrease) in loan receivables	35,450	-
Increase in inventory	-	30
Other	-	13
	<u>86,177</u>	<u>75,524</u>
CURRENT YEAR AUTHORITIES USED	<u>\$ 2,674,771</u>	<u>\$ 2,605,190</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

(b) Authorities provided and used

	<u>2011</u>	<u>2010</u>
AUTHORITIES PROVIDED:		
Vote 1 - Operating expenditures	\$ 778,797	\$ 770,999
Vote 5 - Capital expenditures	57,860	63,890
Vote 10 - Transfer payments	577,776	502,688
Vote 20 - Canadian Pari-Mutuel Agency - Program expenditures	345	525
Statutory amounts	<u>1,503,544</u>	<u>1,545,468</u>
	2,918,322	2,883,570
Less:		
Authorities available for future years	4,941	5,449
Lapsed authorities	<u>238,610</u>	<u>272,931</u>
	243,551	278,380
CURRENT YEAR AUTHORITIES USED	<u>\$ 2,674,771</u>	<u>\$ 2,605,190</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 4 - Accounts receivable and advances

The following table presents details of the Department's accounts receivable balances:

	<u>2011</u>	<u>2010</u>
Receivables from other government departments and agencies	\$ 13,509	\$ 6,835
Receivables from external parties	95,205	113,867
Employee advances	<u>58</u>	<u>53</u>
	108,772	120,755
Allowance for doubtful accounts on receivables from external parties	(38,284)	(54,172)
	<u>\$ 70,488</u>	<u>\$ 66,583</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 5 - Loans receivable

The following table presents details of the Department's loans receivable and program advances balances:

	<u>2011</u>	<u>2010</u>
		Restated (Note 16)
Repayable contributions	\$ 35,450	\$ -
Loans resulting from loan guarantee programs	<u>399,329</u> 434,779	<u>390,928</u> 390,928
Allowance for uncollectibility	(118,202)	(105,871)
Loans for construction of exhibition buildings	-	53
	<u>\$ 316,577</u>	<u>\$ 285,110</u>

(a) Repayable contributions

Repayable contributions relate to contributions made to outside parties which are repayable based on the recipient having met certain conditions.

(b) Loans resulting from loan guarantee programs

The Department's loan receivables are the result of the exercise of loan guarantees by the initial lender under the terms of various loan guarantee programs. These loans are in default with the initial lender and due immediately to the Department. Interest rates on these loans vary according to the initial terms of the loans and applicable government regulations. An allowance of \$118,202,000 (\$105,871,000 in 2010) relating to these loans has been recorded.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 6 - Tangible capital assets

CAPITAL ASSET CLASS	COST					CLOSING BALANCE
	OPENING BALANCE	ACQUISITIONS	DISPOSALS AND WRITE-OFFS	TRANSFERS AND RECLASSIFICATIONS		
Land	\$ 12,991	\$ -	\$ -	\$ -	\$	12,991
Buildings	567,031	259	428	25,865		592,727
Works and infrastructure	54,340	-	328	2,912		56,924
Machinery and equipment	176,664	11,907	4,695	(716)		183,160
Vehicles	61,778	6,715	2,968	485		66,010
Leasehold improvements	13,258	-	184	10,113		23,187
Computer hardware and software	74,964	2,691	2,969	11,735		86,421
Assets under construction	44,972	29,473	-	(43,805)		30,640
	<u>\$ 1,005,998</u>	<u>\$ 51,045</u>	<u>\$ 11,572</u>	<u>\$ 6,589</u>	<u>\$</u>	<u>1,052,060</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

ACCUMULATED AMORTIZATION

CAPITAL ASSET CLASS	OPENING BALANCE		AMORTIZATION		DISPOSALS AND WRITE-OFFS		TRANSFERS AND RECLASSIFICATIONS		CLOSING BALANCE
Land	\$	-	\$	-	\$	-	\$	-	-
Buildings		381,646		17,171		400		(128)	398,289
Works and infrastructure		21,616		1,793		323		(20)	23,066
Machinery and equipment		119,062		9,154		4,610		(1,131)	122,475
Vehicles		39,561		3,891		2,876		337	40,913
Leasehold improvements		13,037		1,829		184		(1,575)	13,107
Computer hardware and software		50,248		10,675		2,969		(1,792)	56,162
Assets under construction		-		-		-		-	-
	\$	625,170	\$	44,513	\$	11,362	\$	(4,309)	\$ 654,012

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

NET BOOK VALUE			
CAPITAL ASSET CLASS	2011	2010	
Land	\$ 12,991	\$ 12,991	
Buildings	194,438	185,385	
Works and infrastructure	33,858	32,724	
Machinery and equipment	60,685	57,602	
Vehicles	25,097	22,217	
Leasehold improvements	10,080	221	
Computer hardware and software	30,259	24,716	
Assets under construction	<u>30,640</u>	<u>44,972</u>	
	\$ 398,048	\$ 380,828	

Transfers and reclassifications of assets under construction represent assets that were put into use in the year and have been transferred to the other capital asset classes as applicable.

During the fiscal year 2011, the Department received machinery and equipment, vehicles and leasehold improvements from other government departments with a net book value of \$10,557,599.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 7 - Accounts payable and accrued liabilities

The following table presents details of the Department's accounts payable and accrued liabilities:

	<u>2011</u>	<u>2010</u>
		Restated (Note 16)
Accounts payable to other government departments and agencies	\$ 28,616	\$ 25,870
Accounts payable to external parties	<u>1,383,452</u>	<u>1,618,845</u>
	1,412,068	1,644,715
Accrued liabilities	159,851	46,373
	<u>\$ 1,571,919</u>	<u>\$ 1,691,088</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 8 - Deferred Revenue

Deferred revenue represents the balance at year-end of unearned revenues stemming mainly from joint collaborative agreements and cost-sharing agreements which are restricted to fund the expenditures related to specific research projects and amounts received for fees prior to services being performed. Revenue is recognized in the period that these expenditures are incurred or the service is performed. Details of the transactions related to this account are as follows:

	<u>2011</u>	<u>2010</u>
Opening balance	\$ 12,201	\$ 11,800
Amounts received	3,802	5,689
Revenue recognized	(4,402)	(5,288)
Closing balance	<u>\$ 11,601</u>	<u>\$ 12,201</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 9 - Employee future benefits

(a) Pension benefits

The Department's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government. Pension benefits accrue up to a maximum period of 35 years at a rate of 2% per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and the Department contribute to the cost of the Plan. The 2011 expense amounts to \$57,877,763 (\$60,006,146 in 2010), which represents approximately 1.9 times (1.9 times in 2010) the contributions by employees.

The Department's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

(b) Severance benefits

The Department provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future authorities. Information about the severance benefits, measured as at March 31, is as follows:

	<u>2011</u>	<u>2010</u>
Accrued benefit obligation, beginning of year	\$ 104,857	\$ 109,040
Expense for the year	15,932	3,720
Benefits paid during the year	(11,050)	(7,903)
Accrued benefit obligation, end of year	<u>\$ 109,739</u>	<u>\$ 104,857</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 10 - Other liabilities

The Department holds funds in trust from the AgrilInvest program, the AgriStability program as well as security deposits.

AgrilInvest is a producer savings account program that replaces the coverage for smaller income declines that was provided by previous programs. Program payments are cost-shared with the province or territory which producers can withdraw under specific terms and conditions. In 2010, producers can now make their AgrilInvest deposits at a participating financial institution of their choice. As such, existing funds held by the federal government are being transferred to the producer's AgrilInvest account held at the financial institutions.

The AgriStability program helps producers protect their farming operations against larger drops in income. Program payments are shared 60% federally and 40% provincially/territorially. The provincial/territorial share of the contributions and interest paid on the contributions are held in a specified purpose account until the producers draw down their funds.

AgrilInvest, AgriStability and security deposit account activity during the year was as follows:

	<u>2011</u>	<u>2010</u>
Opening balance	\$ 601,780	\$ 418,498
Deposits	583,251	539,176
Withdrawals	(890,230)	(355,894)
Ending balance	<u>\$ 294,801</u>	<u>\$ 601,780</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 11 - Restricted Equity of Canada

A portion of the Department's equity is restricted to be used for a specific purpose. Related revenues and expenses are included in the Statement of Operations. The Department operates two programs which under legislation require that the revenues be earmarked to offset the expenses of the program.

The Crop Re-insurance Fund was established pursuant to the *Farm Income Protection Act*. This program provides insurance to participating provinces for costs they incur in operating crop insurance programs. The fund records receipts and disbursements under the terms of reinsurance agreements. When there are insufficient revenues to meet payments, the Minister of Finance may authorize an advance of additional funds to cover these obligations.

The Agricultural Commodities Stabilization Accounts were established pursuant to the *Agricultural Stabilization Act*, under which the commodity accounts formerly operated, and has since been repealed and replaced by the *Farm Income Protection Act* effective April 1, 1991. The purpose of these accounts was to reduce income loss to producers from market risks through stabilizing prices. Premiums were shared equally by the Government of Canada, the governments of participating provinces and participating producers. Current activities are limited to collection of accounts receivable.

The balances of the accounts at the end of the year are included in the Equity of Canada. Activities in these accounts are as follows:

	<u>2011</u>	<u>2010</u>
CROP RE-INSURANCE FUND - RESTRICTED		
Balance, beginning of year	\$ 52,127	\$ (16,533)
Revenues	37,125	76,253
Expenses	<u>-</u>	<u>(7,593)</u>
Balance, end of year	89,252	52,127
 AGRICULTURAL COMMODITIES STABILIZATION ACCOUNTS - RESTRICTED	 647	 647
 TOTAL RESTRICTED EQUITY OF CANADA, END OF YEAR	 <u>\$ 89,899</u>	 <u>\$ 52,774</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 12 - Contingencies

Contingencies arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into five categories as follows:

(a) Contaminated sites

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where the Department is obligated or likely to be obligated to incur such costs. The Department has identified approximately 28 sites (18 sites in 2010) where such action is possible and for which a liability of \$1,461,817 (\$1,358,938 in 2010) has been recorded in accrued liabilities. The Department has estimated additional clean-up costs of \$2,705,676 (\$2,612,380 in 2010) that are not accrued, as these are not considered likely to be incurred at this time. The Department's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by the Department in the year in which they become likely and are reasonably estimable.

(b) Claims and litigation

Claims have been made against the Department in the normal course of operations. These claims include items with pleading amounts and other for which no amount is specified. Based on the Department's assessment, no legal proceedings for claims were pending at March 31, 2011 (\$14,039,481 in 2010).

The Department has also been named in other legal claims against the Government of Canada, related to the agricultural industry, for which amounts and likelihood of liability cannot be determined. The limited disclosure regarding the contingent liabilities for legal claims recognized by the Department is a direct reflection of the sensitivity and status of on-going claims.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

(c) Loan or price guarantees

	AUTHORIZED LIMIT	OUTSTANDING GUARANTEES		ALLOWANCE AS AT MARCH 31	
		2011	2010	2011	2010
Loans according to the Advance Payments Program under the <i>Agricultural Marketing Programs Act</i>	\$ 5,000,000	\$ 1,196,549	\$ 1,514,847	\$ 157,521	\$ 29,983
Loans to farmers under the <i>Canadian Agricultural Loans Act</i>	3,000,000	86,790	99,089	868	991
Price guarantee agreements with marketing agencies pursuant to the Price Pooling Program under the <i>Agricultural Marketing Programs Act</i>	No limit	32,868	17,761	-	-
		<u>\$ 1,316,207</u>	<u>\$ 1,631,697</u>	<u>\$ 158,389</u>	<u>\$ 30,974</u>

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

The allowance for losses is the amount recorded for estimated losses on outstanding loan guarantees and which is included in accrued liabilities. No allowance has been recorded for the Price Pooling Program of the *Agricultural Marketing Programs Act* as no costs are likely to occur.

Under the Advance Payments Program of *Agricultural Marketing Programs Act*, the Department guarantees the repayment of advances made by producer organizations to farmers in the spring and in the fall, creating a more stable business environment. The maximum cash advance of the program is \$400,000. The loans generally have a repayment term of 18 months.

Under the *Canadian Agricultural Loans Act*, the Department guarantees loans by financial institutions to farmers for improvement and development of farms, and the processing, distribution or marketing of farm products. This program guarantees 95 percent of the value of loans provided to farms and co-operatives by financial institutions. For individual applicants, including corporations, the maximum amount for a *Canadian Agricultural Loans Act* loan is \$500,000. Most loans are repayable within ten years; for loans on land purchases, the repayment period is 15 years.

Under the Price Pooling Program of the *Agricultural Marketing Programs Act*, the Department provides a price guarantee that protects marketing agencies and producers against unanticipated declines in the market price of their products.

(d) Conditionally Repayable Contributions

Under the Ruminant Slaughter Loan Loss Reserve Program, which ended in 2007, conditionally repayable contributions which are outstanding in 2011 total \$20,020,640 (\$20,020,640 in 2010). The funds contributed and accumulated interest are repayable within 10 years and no later than December 31, 2017, net of the amounts used to cover a portion of the loan defaults.

Under the ecoAgriculture Biofuels Capital Initiative, conditionally repayable contributions have been issued for a total amount of \$52,571,730 (\$19,458,836 in 2010). Repayments are determined by a project's profitability, and have a maximum repayment period of 7 years.

Under the Slaughter Improvement Program, conditionally repayable contributions have been issued for a total amount of \$22,306,053. Repayments are determined by a project's profitability, and have a maximum repayment period of 10 years.

The amounts that will become repayable cannot be currently estimated. The contributions bear interest rates either at the cost of capital of the lender or at the Government of Canada 90-day bond rate, as per initial agreements with the lender.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

(e) Contingent Recoveries

AgriStability and Canadian Agricultural Income Stabilization (CAIS) programs are federally and provincially/territorially cost shared programs and CAIS Inventory Transition Initiative (CITI) is a federally funded program. When provincial/territorial governments deliver these programs and overpayments occur, the federal government is entitled to recover its share of funding if and when overpayments are recovered. The Department has estimated the contingent recoverable amount as \$10,063,255 (\$16,175,246 in 2010). Contingent recoveries are not recorded in the financial statements.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 13 - Contractual Obligations

The nature of the Department's activities can result in some large multi-year contracts and obligations whereby the Department will be obligated to make future payments in order to carry out its transfer payment programs. Significant non revocable contractual obligations that can be reasonably estimated are summarized as follows:

	2012	2013	2014	2015	2016 AND THEREAFTER	TOTAL
TRANSFER PAYMENTS	\$ 10,000	\$ 2,553	\$ -	\$ -	\$ -	\$ 12,553
	\$ 10,000	\$ 2,553	\$ -	\$ -	\$ -	\$ 12,553

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 14 - Related Party Transactions

The Department is related as a result of common ownership to all Government departments, agencies, and Crown Corporations. The Department enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, the Department received common services which were obtained without charge from other Government departments as disclosed below.

(a) Common services provided without charge by other government departments

During the year the Department received services without charge from certain common service organizations, related to the employer's contribution to the health and dental insurance plans, accommodation, legal services, and workers' compensation coverage. These services provided without charge have been recorded in the Department's Statement of Operations as follows:

	2011	2010
Employer's contribution to the health and dental insurance plans	\$ 42,495	\$ 38,814
Accommodation	26,016	23,272
Legal services	1,482	1,701
Workers' Compensation	1,342	1,448
	<u>\$ 71,335</u>	<u>\$ 65,235</u>

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General are not included in the Department's Statement of Operations.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

(b) Other transactions with related parties

	<u>2011</u>	<u>2010</u>
Expenses - Other Government departments and agencies	\$ 153,828	\$ 140,564
Revenues - Other Government departments and agencies	\$ 85	\$ 121

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 15 - Segmented information

Presentation by segment is based on the Department's program activity architecture. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main program activities, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

#	BRM	IS	SIA	TMD	OFA	RMS	EKTIM	ABD	RCD	CPMA	REF	FPCC	2011 TOTAL	2010 TOTAL
EXPENSES														
Transfer payments	\$ 1,382,677	\$ -	\$ 125,450	\$ 37,219	\$ 56,406	\$ 50,071	\$ 1,090	\$ 96,186	\$ 9,146	\$ -	\$ -	\$ -	\$ 1,758,245	\$ 1,471,914
Salaries and employee benefits	28,224	239,570	145,577	44,049	31,738	33,834	67,006	4,227	9,114	4,314	6,620	2,122	616,395	593,109
Professional and other services	11,949	57,522	28,598	2,086	4,166	3,161	9,133	3,313	1,307	7,153	3,652	382	138,422	111,200
Allowance for loan guarantees and bad debts	166,161	14,844	-	-	-	-	-	-	-	(12)	-	-	180,993	34,480
Materials and supplies	613	19,297	19,095	760	7,270	3,381	5,845	47	113	109	1,184	118	57,832	64,831
Amortization of tangible capital assets	-	44,193	-	-	-	-	-	-	-	320	-	-	44,513	40,013
Accommodation	(45)	24,012	160	325	1,398	68	180	37	3	548	122	13	26,821	38,923
Travel	556	4,948	4,103	3,600	1,633	921	2,740	172	629	190	307	173	19,972	20,867
Repairs and maintenance	678	15,391	5,945	26	2,293	435	1,199	13	-	11	50	43	26,084	24,482
Electricity and other public services	-	16,411	82	-	301	2	8	-	-	6	-	-	16,810	16,615
Crop Re-Insurance Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	7,593
TOTAL EXPENSES	1,590,813	436,188	329,010	94,065	105,205	91,873	87,201	103,995	20,312	12,639	11,935	2,851	2,886,087	2,424,027
REVENUES														
Crop Re-Insurance Fund	37,125	-	-	-	-	-	-	-	-	-	-	-	37,125	76,253
Sale of goods and services	1,635	1,396	17,870	-	17,460	217	10	-	5	11,575	-	-	50,168	50,348
Interest	1,723	7,902	1	2	58	10	1	-	-	25	-	-	9,722	5,685
Joint project and cost sharing agreements	-	325	3,948	88	-	-	40	-	-	-	-	-	4,401	5,288
Gain on disposal of assets	-	324	2,782	-	1,018	36	31	-	-	-	-	-	4,201	3,681
TOTAL REVENUES	40,483	9,957	24,601	90	18,536	263	82	-	5	11,600	-	-	105,617	141,255
NET COST OF OPERATIONS	\$ 1,550,330	\$ 426,231	\$ 304,409	\$ 93,975	\$ 86,669	\$ 91,610	\$ 87,119	\$ 103,995	\$ 20,307	\$ 1,039	\$ 11,935	\$ 2,851	\$ 2,780,470	\$ 2,282,772

*BRM - Business Risk Management ; IS - Internal Services; SIA - Science, Innovation and Adoption; TMD - Trade and Market Development; OFA - On-Farm Action; RMS - Food Safety and Biosecurity Risk Management Systems; EKTIM - Environmental Knowledge, Technology, Information and Measurement; ABD - Agri-Business Development; RCD - Rural and Co-operatives Development; CPMA - Canadian Pari-Mutuel Agency; REF - Regulatory Efficiency Facilitation; FPCC - Farm Products Council of Canada.

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 16 - Restatement of prior year figures

During the year, the Department revised the amount due from the Consolidated Revenue Fund after receiving further guidance from Treasury Board Secretariat. The modifications represent an increase to the due from the Consolidated Revenue Fund and an increase to Equity of Canada in 2010 and prior years.

The department also identified an asset and a liability which did not meet Treasury Board Accounting Standard's definition of these items. The correction represents a decrease to loans receivable and program advances as well as a decrease in accounts payable and accrued liabilities.

As well, the department reclassified an account receivable to a loan receivable (decrease in accounts receivable and increase in loans receivable) and an account from vacation pay and compensatory leave to accounts payable and accrued liabilities (decrease in vacation pay and compensatory leave and increase in accounts payable and accrued liabilities).

The modifications have been accounted for retroactively with the following impact on the comparative results for 2010:

	<u>2010</u>		<u>2010</u>
	AS PREVIOUSLY	EFFECT OF	RESTATED
	STATED	CHANGES	
STATEMENT OF FINANCIAL POSITION:			
Assets			
Due from Consolidated Revenue Fund	\$ 1,867,089	\$ 383,816	\$ 2,250,906
Accounts receivable and advances	312,993	(246,409)	66,584
Loans receivable	<u>426,315</u>	<u>(141,206)</u>	<u>285,109</u>
	2,606,397	(3,798)	2,602,598
Liabilities and Equity of Canada			
Accounts payable and accrued liabilities	2,067,285	(376,197)	1,691,089
Vacation pay and compensatory leave	44,759	(11,418)	33,341
Equity of Canada	<u>160,731</u>	<u>383,816</u>	<u>544,547</u>
	\$ 2,272,775	\$ (3,798)	\$ 2,268,977

AGRICULTURE AND AGRI-FOOD CANADA

Notes to the Financial Statements (Unaudited)

For the Year Ended March 31

(tabular amounts in thousands of dollars)

Note 17 - Comparative information

Comparative figures have been reclassified to conform to the current year's presentation.

AGRICULTURE AND AGRI-FOOD CANADA

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting

NOTE TO THE READER

With the Treasury Board *Policy on Internal Control*, effective April 1, 2009, departments are now required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

As part of this policy, departments are expected to conduct annual assessments of their system of ICFR, establish action plan(s) to address any necessary adjustments, and to attach to their *Statements of Management Responsibility* a summary of their assessment results and action plan.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- transactions are appropriately authorized;
- financial records are properly maintained;
- assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement; and
- applicable laws, regulations and policies are followed.

It is important to note that the system of ICFR is not designed to eliminate all risks, rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess the effectiveness of associated key controls and adjust as required, as well as to monitor the system in support of continuous improvement. As a result, the scope, pace and status of those departmental assessments of the effectiveness of their system of ICFR will vary from one organization to another based on risks and taking into account their unique circumstances.

1. Introduction

This document is attached to Agriculture and Agri-Food Canada's *Statement of Management Responsibility Including Internal Control Over Financial Reporting* for the fiscal-year 2010-2011. As required by the Treasury Board *Policy on Internal Control*, effective April 1, 2009, this document provides summary information on the measures taken by Agriculture and Agri-Food Canada to maintain an effective system of internal control over financial reporting (ICFR). In particular, it provides summary information on the assessments conducted by Agriculture and Agri-Food Canada as at March 31, 2011, including progress, results and related action plans along with some financial highlights pertinent to understanding the control environment unique to the department. This is the second annex produced by this department.

1.1 Authority, Mandate and Program Activities

Detailed information on Agriculture and Agri-Food Canada's authority, mandate and program activities can be found in the Departmental Performance Report and the Report on Plans and Priorities.

1.2 Financial Highlights

Financial information can be found in the financial statements (unaudited) of Agriculture and Agri-Food Canada for fiscal year 2010-11. Information can also be found in the Public Accounts of Canada.

- Total expenses were \$2.9B. Transfer payments comprise of \$1.8B (61%) followed by salaries and employee benefits of \$616.4M (21%). Transfer payments are largely to help agriculture producers to manage business risk.
- Total revenues were \$105.6M. Sale of goods and services comprise of \$50.2M (47%) followed by Crop Re-insurance fund premiums of \$37.1M (35%).
- Financial assets consist primarily of the amount due from the Consolidated Revenue Fund \$1.7B (68%) followed by loans receivable \$316.6M (13%) and accounts receivable \$70.5 M (3%).
- Non-financial assets consist primarily of tangible capital assets, which comprise of \$398M (16%) of the departmental total assets of \$2.5B. The majority of tangible capital assets are buildings, machinery and equipment located at agricultural research centres across Canada.

- Accounts payable and accrued liabilities comprise of \$1.6B (78%) of total liabilities of \$2.0B. Accrued liabilities related to transfer payment programs represent the largest portion of this category. Other liabilities of \$294.8M (15%) consist of amounts held in trust from agricultural producers and provincial administrations under the terms of transfer payment programs to manage business risks.
- The department has a strong regional presence across the country with nearly each branch having employees in regional offices or research centres. Due to this vast decentralization, the finance and accounting functions are also decentralized and each research centre and regional office initiates, approves and/or records a significant portion of the department's expenditures.
- Agriculture and Agri-Food Canada has a comprehensive information systems environment that is critical to its operations and financial reporting which is comprised of an integrated financial system (SAP), a human resource management system (Peoplesoft), and grants and contributions delivery systems. Business processes are standardized across all locations.

1.3 Service Arrangements Relevant to Financial Statements

Agriculture and Agri-Food Canada relies on other organizations for the processing of certain transactions that are recorded in its financial statements:

- The Department of Public Works and Government Services centrally administers the payments of salaries and the procurement of goods and services as well as the provision of accommodations.
- Treasury Board Secretariat provides the department with information used to calculate various accruals and allowances, such as the accrued severance liability.
- The Department of Justice provides legal services to Agriculture and Agri-Food Canada.

1.4 Material Changes in Fiscal Year

No significant departmental changes that are relevant to financial statements occurred in 2010-2011.

2. Control environment at Agriculture and Agri-Food Canada relative to ICFR

Agriculture and Agri-Food Canada recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining effective systems of ICFR and are well equipped to exercise these responsibilities effectively. Agriculture and Agri-Food Canada's focus is to ensure risks are well managed through a responsive and risk-based control environment that enables continuous improvement and innovation.

2.1 Key Positions, Roles and Responsibilities

Below are Agriculture and Agri-Food Canada's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

Deputy Head - Agriculture and Agri-Food Canada's Deputy Head, as Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. In this role, the Deputy Head is advised by the Departmental Audit Committee and the Departmental Management Committee.

Chief Financial Officer (CFO) - Agriculture and Agri-Food Canada's CFO reports directly to the Deputy Head and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of ICFR, including its annual assessment. Falling under the CFO responsibilities is also the management of the Corporate Risk Profile of Agriculture and Agri-Food Canada.

Senior Departmental Managers - Agriculture and Agri-Food Canada's senior departmental managers in charge of program delivery are responsible for maintaining and reviewing the effectiveness of their system of ICFR falling within their mandate.

Chief Audit Executive (CAE) - Agriculture and Agri-Food Canada's CAE reports directly to the Deputy Head and provides assurance through periodic internal audits which are instrumental to the maintenance of an effective system of ICFR.

Departmental Audit Committee (DAC) - The DAC is an advisory committee that provides objective views on the department's risk management, control and governance frameworks. It is comprised of three external members and was established in 2008. As such, it reviews Agriculture and Agri-Food Canada's Corporate Risk Profile and its system of internal control, including internal and external audit reports and the assessment and action plans relating to the system of ICFR.

Departmental Management Committee (DMC) - As the Agriculture and Agri-Food Canada's central decision-making body, the DMC reviews, approves and monitors the Corporate Risk Profile and the departmental system of internal controls, including the system of ICFR.

Centre of Program Excellence – Service Transformation Board (COPE) – Associate Deputy Minister level committee with responsibility to provide broad horizontal direction for developing and implementing departmental policies and frameworks for program development and management, grants and contributions reforms and service excellence.

2.2 Key measures taken by at Agriculture and Agri-Food Canada

Agriculture and Agri-Food Canada's control environment also includes a series of measures to equip its staff to manage risks through raising awareness, providing appropriate knowledge and tools as well as developing skills. The most relevant are:

- Departmental Ethics Office and Code of Ethics which provides information and support to staff on ethical issues;
- Security Guidelines relating to the overall security program including elements of information and personnel security;
- Departmental policies tailored to the Department's control environment;
- Regularly updated delegated authorities matrix;
- Training program and communications in core areas of financial management; and
- Documentation of main business processes and related key risk and control points to support the management and oversight of its system of ICFR.

3. Assessment of Agriculture and Agri-Food Canada's System of ICFR

3.1 Assessment approach

To satisfy the requirements of the *Policy on Internal Control*, the department must be able to maintain an effective system of ICFR with the objective to provide reasonable assurance that:

- transactions are appropriately authorized;
- financial records are properly maintained;
- assets are safeguarded; and
- applicable laws, regulations and policies are followed.

Over time, this includes assessment of **design** and **operating effectiveness** of the system of ICFR leading to ensuring the **on-going monitoring** and continuous improvement of the departmental system of ICFR.

Design effectiveness means to ensure that key control points are identified, documented, in place and that they are aligned with the risks (i.e. controls are balanced with and proportionate to the risks they aim to mitigate) and that any remediation is addressed. This includes the mapping of key processes and IT systems to the main accounts by location as applicable.

Operating effectiveness means that the application of key controls has been tested over a defined period and that any required remediation is addressed.

Such testing covers all departmental control levels which include corporate or entity, general computer and business process controls.

3.2 Scope of at Agriculture and Agri-Food Canada assessment during fiscal year 2010-11

The department has taken measures to assess its system of ICFR starting from its financial statements with a focus on these elements:

- Financial close and reporting;
- New transfer payment programs;
- General Computer Controls (SAP and Agri-Share System);
- Allowance related to loans guarantees;
- Physical capital assets; and
- Accrual accounting adjustments for major transfer payments programs

For each specific element, the Department completed the following step:

- Gathering information pertaining to processes and locations, risks and controls relevant to ICFR, including appropriate laws, policies, directives and procedures;
- Mapping out key processes with the identification and documentation of key risk and control points on the basis of materiality, volumes, complexity, geographic dispersion, susceptibility to losses/frauds, areas subject to audit observations, past history, external attention, and reliance on third-party;
- Commencing design effectiveness testing; and
- Incorporating new information available from recent audits and/or evaluations.

4. Agriculture and Agri-Food Canada's Assessment Results during fiscal year 2010-11

As the result of the assessment approach described above, the Department developed baseline architecture of all key control points by accounts, locations, processes and main IT systems.

In assessing its key controls, the Department focused on design effectiveness which is the prerequisite to testing operating effectiveness.

4.1 Design Effectiveness of Key Controls

Agriculture and Agri-Food Canada's programming is responsive to industry needs and therefore experiences regular changes to its programs. Because of evolving programming, ongoing operating expenditure processes were documented initially. In addition, its largest transfer payment programs, revenues and capital assets, as well as the financial close and entity level control processes were documented. Walkthroughs were conducted to confirm the design and implementation of controls. As at March 31, 2011, Agriculture and Agri-Food Canada has identified improvements needed in the design effectiveness of its controls:

Business Process Controls

- Improve the consistency of documentation to better support a more effective assessment of internal control over financial reporting;
- Enhance the substantiating evidence over financial statements assertions, such as for physical assets, loans and allowance; and
- Improve the consistency of monitoring and oversight of the quality assurance of account verification occurring prior to payment and post-payment to improve the systematic review, analysis and action on gaps in performance pertaining to several business processes.

Financial Close and Reporting

- greater clarity of roles and responsibilities as well as improved challenge functions and quality assurance over the trial balance or amounts and disclosures in the financial statements, including for the central accounting and reporting team as well as all branches and programs.

Physical capital assets

- Clarify standards, communications, roles and responsibilities for the recording of projects to work in progress like software development; and
- Improve the documentation for the inventory process.

General Computer Control (SAP and Agri-Share System)

- Some control descriptions must be revised or more defined ; and
- Strengthen control over program change and logical access (SAP)

Allowance related to loans guarantees

- Clarify roles and responsibilities for the evaluation of the allowance

Accrual accounting adjustments for major transfer payments programs

- Clarify roles and responsibilities for adjustments

4.2 Operating Effectiveness of Key Controls

Agriculture and Agri-Food Canada developed a plan to test operating effectiveness of keys controls and will be implemented starting in 2011-12.

5. Agriculture and Agri-Food Canada's Action Plan

5.1 Progress during fiscal year 2010-2011

To ensure the **accuracy of departmental financial statements and Public Accounts**, the department had to address new priorities and consequently made progress during 2010-11 in the following areas:

- Completed. The documentation of controls to record accrual accounting adjustments has been improved for major transfer payment programs (i.e. AgriStability and AgriInvest). Tests have been completed to validate accounting adjustments and related controls.
- Completed. A new valuation methodology for the allowance related to loan guarantees has been implemented in 2010-11. Tests have been completed to validate the allowance and related controls.
- Substantially Advanced. To improve the control process over physical capital assets, training sessions have been developed and delivered to those employees involved in the physical assets management and accounting. Tests on capital assets inventory have been done at many responsibility centres.

The department also met its commitments for 2010-11 from the 2009-10 action plan as follows:

- Completed. The documentation of financial closing and reporting process has been completed and key controls have been tested during the preparation of Public Accounts and departmental financial statements.
- Substantially advanced. As at March 31, 2011, the department has completed a large part of the assessment, documentation and testing of general computer controls (SAP System).
- Substantially advanced. The documentation of controls on new transfer payment programs has been substantially completed and tests have been completed on the controls.

5.2 Action Plan for the Next Fiscal Year and Future Years

Under the *Policy on Internal Control*, departments need be able to maintain an effective system of ICFR with the objectives to provide reasonable assurances that a) transactions are appropriately authorized, b) financial records are properly maintained, c) assets are safeguarded and d) applicable laws, regulations and policies are followed.

Building on progress to date, Agriculture and Agri-Food Canada is positioned to complete the assessment of its system of ICFR in 2012-13. During this period, the department will complete the initial documentation of business processes listed for 2011-12 and 2012-13 and do the design and operating effectiveness testing related to these ones. For the years 2013-14 and thereafter, testing of key controls will be in an ongoing monitoring mode.

By the end of 2011-12, complete the initial documentation and testing of:

- general computer controls (SAP and Agri-Share System);
- large business risk management transfer payments programs: Agri-Stability, Agri-Invest, Agri-Insurance;
- loans and advances;
- new transfer payment programs;
- other transfer payment programs;
- crop Re-Insurance financial operations; and
- physical capital assets (responsibility center to be determined for testing).

By the end of 2012-2013, complete the initial documentation and testing of:

- operating expenditures (documentation completed - test of controls to complete);
- pay operations;
- revenue activities;
- new transfer program;
- general computer controls (other than SAP and Agri-Share system);
- entity level controls (documentation completed – tests of control to complete);
and
- physical capital assets (documentation must have been completed - responsibility center to be determined for testing).

Future Years

For the years 2013-14 and thereafter, testing of key controls will be in an ongoing monitoring mode as per the following cycle:

Activity		Year 1	Year 2	Year 3	Year 4
		2013/14	2014/15	2015/16	2016/17
Ongoing monitoring Mode					
High Risk (Annual)	Financial Close & Reporting	✓	✓	✓	✓
	New Transfer Payment Programs	✓	✓	✓	✓
	IT- Major Systems	✓	✓	✓	✓
Medium Risk (2 year cycle)	AgriStability		✓		✓
	AgriInvest		✓		✓
	AgriInsurance	✓		✓	
	Other transfer payment programs		✓		✓
	Loans & Advances	✓		✓	
	Physical Capital Assets	✓		✓	
	IT- Minor Systems		✓		✓
Low Risk (3 year cycle)	Operating Expenditures	✓			✓
	Payroll		✓		
	Revenues			✓	